

# 1997 Nonresident Personal Income Tax

## For Assistance

If you have questions, please call one of the following help numbers.

Phoenix..... (602) 255-3381  
Other Arizona areas ..... (800) 352-4090  
Form Orders ..... (602) 542-4260  
Forms by Fax ..... (602) 542-3756  
Recorded Tax Information  
Phoenix ..... (602) 542-1991  
Other Arizona areas .. (800) 845-8192  
Hearing impaired TDD user  
Phoenix ..... (602) 542-4021  
Other Arizona areas . (800) 397-0256

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<http://www.revenue.state.az.us>

## Are You Subject to Tax in Arizona?

**A. Residency Status.** A person is a resident of Arizona if that person's domicile is in Arizona. Domicile is the place where you have your permanent home. It is where you intend to return if you are living or working temporarily in another state or country.

For more information on determining residency for Arizona income tax purposes, see Arizona Department of Revenue Income Tax Procedure ITP 92-1. To get a copy of this procedure, call one of the help numbers listed on this page.

**B. As an Arizona nonresident,** you are subject to Arizona income tax on all income derived from Arizona sources. If you are in this state for a temporary or transitory purpose or did not live in Arizona but received income from sources within Arizona during 1997, you are subject to Arizona tax. Income includes wages, rental income, business income, the sale of Arizona real estate, interest and dividends having a taxable or business situs in this state, or any other income from an Arizona source.

**NOTE:** *You must file a state return even if your employer withheld all or part of the tax.*

**C. Military Personnel** If you were an Arizona resident when you entered the military, you continue to be an Arizona resident regardless of where you are stationed. You continue to be an Arizona resident unless you establish a new domicile.

If you are an Arizona resident, you are subject to Arizona income tax on all of your income. This includes your military pay.

If you are a nonresident stationed in Arizona you are not subject to Arizona income tax on your military pay. If you earn other income in Arizona, that income is taxable by Arizona. Use Form 140NR, *Nonresident Personal Income Tax Return*, to report this income.

For more information, see Arizona Department of Revenue brochure, Pub 704, *Taxpayers in the Military*. To get a copy of this brochure, call one of the help numbers listed on this page.

**D. Deceased Taxpayer.** When a taxpayer dies during the year, the surviving spouse or personal representative may have to file a final return. Use the form the taxpayer would have used. Enter the word "deceased" after the decedent's name in the address section of the form. Also enter the date of death after the decedent's name. The surviving spouse may file a joint return with the deceased taxpayer. If you are filing a joint return, write "filing as surviving spouse" in the area for the deceased spouse's signature. Include the deceased taxpayer's income up to the date of death and your income for the entire year. **If the department mailed you a booklet do not use the label.**

If requesting a refund, complete Form 131, *Claim for Refund on Behalf of*

**Deceased Taxpayer.** Attach this form to the **front** of your return. It may be necessary to file fiduciary or estate tax returns also. Call the Arizona Department of Revenue at (602) 542-4022 for details on filing a fiduciary or estate tax return.

**E. American Indians.** You must file an Arizona income tax return if you meet the Arizona filing requirements unless **all** the following apply to you.

1. You are an enrolled member of an Indian tribe.
2. You live on the reservation established for that tribe.
3. You earned all of your income on that reservation.

For more information, see Arizona Department of Revenue Income Tax Ruling ITR 96-4. To get a copy of this ruling, call one of the help numbers listed on this page.

**F. Spouses of American Indians.** If either 1 or 2 below apply to you, see Arizona Department of Revenue Income Tax Ruling ITR 96-4.

1. You are a non-Indian married to an Indian described in paragraph E above.
2. You are a non-enrolled Indian married to an Indian described in paragraph E above.

To get a copy of this ruling, call one of the help numbers listed on this page.

**G. Parents Electing To Claim Certain Unearned Income of Their Children on Their Federal Income Tax Return Under IRC 1(i)(7).** When you include your child's unearned income in your federal adjusted gross income, you must include that same income in your Arizona taxable income. The child should not file an Arizona income tax return.

## Do You Need To File a Return?

Your filing status and income determine if you must file an Arizona income tax return. You must file a return to get a refund of any Arizona income tax withheld.

Gross income is gross income as defined under the Internal Revenue Code, less that income Arizona law excludes from Arizona taxation.

## When Should You file?

### Your 1997 tax return is due no later than midnight, April 15, 1998.

File your return as soon as you can after January 1, but no later than April 15, 1998. To avoid penalties and interest, the U.S. Postal Service must postmark your return by April 15, 1998.

You may request an extension if you know you will not be able to file on time. *An extension does not extend the time to pay your income tax. Failure to pay at least 90 percent of the tax due by the original due date will result in a penalty.* The department will charge you interest on any tax that you do not pay by April 15. The department will also charge you an extension underpayment penalty if you do not pay 90 percent of your tax by April 15. This penalty is one-half of one percent (.005) of the tax not paid for each 30 day period or fraction of a 30 day period. This penalty cannot exceed 25 percent of the unpaid tax.

## Filing Status and Income Chart

The following rules are for all Arizona taxpayers.

You must file if you are:	and your gross income is at least:	or your Arizona adjusted gross income is at least:
Single	\$ 15,000	\$ 5,500
Married filing jointly	\$ 15,000	\$ 11,000
Married filing separately	\$ 15,000	\$ 5,500
Unmarried head of household	\$ 15,000	\$ 5,500

You can find your Arizona adjusted gross income on line 22 of Arizona Form 140NR.

## To get a filing extension, you can either:

1. Apply for a state extension (Form 204). To request a filing extension for only your Arizona return, file Arizona Form 204 by April 15. See Form 204 for details.
2. Use your federal extension (Federal Form 4868 or 2688). Arizona will accept your federal extension for the same period. Attach a copy of the federal extension to the front of your return. However, if you must make a payment, use Arizona Form 204.

*Attach a copy of your extension to the front of your return when you file.*

## Nonresident Aliens

Nonresident aliens having federal income tax returns due on June 15 must file Arizona tax returns by April 15.

To file an Arizona return at the same time the federal return is due, file for an extension by April 15.

You must pay at least 90 percent of your tax liability by April 15. Those filing for a federal four-month extension, must file an Arizona extension for both the four-month and two-month extensions. See Form 204 for extension filing details.

When you do not file your Arizona return or extension by April 15, the department may charge you interest

and penalties. Late filing and late payment penalties and interest will apply to the unpaid tax liability.

## Penalties and Interest

**A. Late Filing Penalty.** The late filing penalty is 5 percent of the tax found to be remaining due for each month or fraction of a month the return is late. This penalty cannot exceed 25 percent of the tax found to be remaining due.

**B. Extension Underpayment Penalty.** The department imposes this penalty if you do not pay 90 percent of the tax liability shown on your return filed under an extension by the return's original due date. The department may also impose this penalty if you do not attach the extension to your return when you file. The extension underpayment penalty is one-half of one percent (.005) of the tax not paid for each 30 day period or fraction of a 30 day period. The department imposes this penalty from the original due date of the return until you pay the tax. The extension underpayment penalty cannot exceed 25 percent of the unpaid tax.

**C. Late Payment Penalty.** The department imposes the late payment penalty if you do not pay the tax by the time prescribed for its payment. The late payment penalty is 10 percent of the tax not paid within the time prescribed for its payment.

**NOTE:** *If you are subject to two or more of the above three penalties, the maximum combined penalty cannot exceed 25 percent.*

**D. Interest.** The department charges interest on any tax not paid by the due date even if you have an extension. The department charges interest from the original due date to the date of payment. The Arizona rate of interest is the same as the federal rate.

Contact one of the help numbers listed on page 1 of these instructions for the current interest rate.

**E. Estimated Payment Penalty.** The department imposes the underpayment of estimated tax penalty on any late payment or underpayment of a required installment of estimated tax. Refer to Arizona Form 221 for further details.

## Do You Need To Make Estimated Payments in 1998?

You must make Arizona estimated income tax payments during 1998 if either of the following apply.

1. You reasonably expect your Arizona gross income will exceed \$75,000 in 1998.
2. Your Arizona gross income in 1997 was greater than \$75,000.

As a nonresident, your Arizona gross income is that part of your federal adjusted gross income derived from Arizona sources.

In projecting current Arizona gross income, you must use ordinary business care and prudence.

The department charges a penalty if you fail to make any required estimated payments. The department also charges interest on any late or underpaid estimated tax payment.

An individual who does not have to make Arizona estimated income tax payments may choose to make them.

For more information, see Arizona Forms 140ES and 221. Also see Arizona Department of Revenue Income Tax Ruling ITR 92-1. To get a copy of this ruling, call one of the help numbers listed on page 1 of these instructions.

## How Do You Amend a Return?

To make a change in your return for 1997 or prior years, file an Arizona Form 140X, *Individual Amended Return*. **Do not** file a new return for the year you are correcting. Generally, you

have four years to amend a return to claim a refund.

If the Internal Revenue Service changes your federal taxable income, you must file an Arizona Form 140X for that year. Attach a complete copy of the IRS agent's report. If there are any changes to your federal taxable income, you must amend your Arizona return within 90 days of the change.

## Line-by-Line Instructions

### Tips for Preparing Your Return:

- Complete your return using black ink.
- You must round dollar amounts to the nearest whole dollar. If 50 cents or more, round up to the next dollar. If less than 50 cents, round down.
- When asked to provide your own schedule, attach a separate sheet with your name and social security number at the top. Attach your own schedules to the back of your return.
- Complete your federal return before you start your Arizona return.
- Include your home telephone number and a daytime telephone number, if different.
- If filing a fiscal year return, fill in the period covered in the space provided at the top of the form.

## Entering Your Name, Address, and Social Security Number

### Lines 1, 2, and 3 -

If your booklet has a pre-addressed label inside, use that label if all the information is correct. **Do not use the label if any information is incorrect.**

If there is no correct pre-addressed label, print or type your name, address, and social security number in the space provided. If you do not have a social security number, but have an IRS

individual taxpayer identification number, use that number instead. If filing a joint return, enter both social security numbers in the same order as your first names. If you and your spouse have different last names, separate your last names with "and." Put them in the same order as your first names and social security numbers.

The department issues refunds under both first name initials and the last name listed first on the return. For a deceased taxpayer, see page 1 of these instructions.

Use your current home address. The department will send any refund or correspondence to that address.

**NOTE:** *Make sure your social security number is correct and listed in the same order every year if filing jointly.*

Make sure that every return, statement, or document that you file with the department has your social security number. If you pay someone to prepare your return, your preparer must also include a proper identification number where requested.

A paid preparer may use either of the following.

1. The paid preparer may use his or her social security number.
2. The paid preparer may use the federal employer identification number for the business.

Failing to include the proper numbers may subject you or your preparer to a penalty. Make sure that all of the required identification numbers are clear and correct. Your return may take longer to process if identification numbers are missing, incorrect, or unclear. If you are filing a joint return, enter your social security numbers in the same order every year.

*If your name appears first on the return, make sure your social security number is the first number listed.*

## Determining Your Filing Status

The filing status used on your federal return may be different from that used on your Arizona return. Use this section to determine your correct filing status and check the appropriate box (4 through 7) on the front of Form 140NR.

### Line 4 Box - Married Filing a Joint Return

You may use this filing status if married as of December 31, 1997. It does not matter whether or not you were living with your spouse. You may use this filing status if your spouse died during 1997 and you did not remarry in 1997. See "Deceased Taxpayer" section on page 1 for more information.

If you are married to an Arizona full year resident, you may file a joint return using the 140NR. For more information, see Arizona Department of Revenue Income Tax Ruling ITR 95-2. To get a copy of this ruling, call one of the help numbers listed on page 1 of these instructions.

### Line 5 Box - Unmarried Head of Household

In most cases you may file as head of household on your Arizona return when you qualify as head of household on your federal return.

You cannot file as head of household on your Arizona return when you do not qualify as head of household on your federal return.

**Important:** While for the most part Arizona law is like federal law, Arizona law is not always the same as federal law. You cannot file as head of household on your Arizona return if you are married living apart from your spouse.

The head of household filing status is for **unmarried** individuals who provide a home for certain other persons. You may check the box on line 5 **only if** you were unmarried or legally separated under a court order as of December 31,

1997. You are unmarried if you have never been married or are divorced. For head of household purposes the department may treat you as unmarried if your spouse was a nonresident alien at any time during 1997. If filing as head of household and your spouse was a nonresident alien at any time during 1997, enter your spouse's name on the line next to Box 6. Also enter either your spouse's social security number or your spouse's IRS individual taxpayer identification number in the space provided on line 2.

To qualify as a head of household, either 1 or 2 below must apply.

1. You paid over half the cost of keeping up a home that was the main home for all of 1997 of your **parent** if you can claim that parent as a dependent on your federal return. Your parent did not have to live with you in your home.
2. You paid over half the cost of keeping up a home in which you lived and in which one of the following also lived for more than half of the year. (If half or less, see "Exception" later.)
  - Your **unmarried** child, adopted child, grandchild, great-grandchild, etc., or stepchild. This child does not have to be your dependent. In this case, enter the child's name in the space provided on the line next to the box on line 5. If you do not enter the name, the department may disallow your head of household status.
  - Your **married** child, adopted child, grandchild, great-grandchild, etc., or stepchild. In most cases you must be able to claim this child as a dependent on your federal return. This child does not have to be your dependent if the child's other parent claims him or her as a dependent under the rules for "Children of Divorced or Separated Parents." You can find these rules in the instructions for line 10. Enter the child's name on the line next to the box on line 5. If you do not enter the name, the department may disallow your head of household status.

- Your **foster** child if you can claim that child as a dependent on your federal return.
- Any other **relative** you can claim as a dependent on your federal return.

**NOTE:** You cannot file as head of household if you claim the dependent exemption under the rules for a person supported by two or more taxpayers. You can find these rules in the instructions for line 10.

### Keeping up a Home

To find out about the cost of keeping up a home, see IRS publication 501.

If you used payments you received under the **Aid to Families With Dependent Children (AFDC)** program or **other public assistance** programs to pay part of the cost of keeping up your home, you cannot count them as money you paid. You must include them in the total cost of keeping up your home to figure if you paid over half of the cost.

### Exception

You can count temporary absences such as for school, vacation, or medical care as time lived in your home. If the person for whom you kept up a home was born or died in 1997, you may still file as head of household as long as the home was that person's main home for the part of the year he or she was alive.

Check the line 5 box and enter your dependent's name in the space provided.

### Line 6 Box - Married Filing Separately

Use this filing status if married on December 31, 1997, and filing a separate Arizona return.

Check the line 6 box and enter your spouse's name in the space provided. Also enter your spouse's social security number in the space provided on line 2.

Arizona is a community property state. Separate Arizona income tax returns must reflect one-half of the community

income taxable to Arizona plus any separate income taxable to Arizona.

You must account for community deductions and credits on the same basis as community income. Both filers must either itemize or not itemize. One may not claim a standard deduction while the other itemizes deductions. If you and your spouse support a dependent child from community income, either you or your spouse may claim the dependent. Both of you cannot claim the same dependent on both returns.

If you file a separate Arizona income tax return, your return must reflect all of the following.

1. One-half of the total community income derived from Arizona sources.
2. Any separate income derived from Arizona sources.

### Line 7 Box - Single

Use this filing status if unmarried or legally separated on December 31, 1997, and you cannot use head of household. Legally separated means under a decree of divorce or of separate maintenance.

## Exemptions

Write the number of exemptions you are claiming in boxes 8, 9, and 10. Do not put a checkmark. You may lose the exemption if you put a checkmark in these boxes. You may lose the dependent exemption if you omit names, relationships, and social security numbers on page 2, Part A.

### Line 8 Box - Age 65 or Over

Write "1" in box 8 if you or your spouse were 65 or older in 1997. Write "2" in box 8 if both you and your spouse were 65 or older in 1997.

### Line 9 Box - Blind

Write "1" in box 9 if you or your spouse are totally or legally blind. Write "2" in box 9 if both you and your spouse are totally or legally blind. To qualify as legally blind, you must attach a physician's letter stating one of the following.

1. Your vision is 20/200 or poorer with corrective lenses.
2. Your field of vision is 20 degrees or less.

### Line 10 Box - Dependents

You must complete Part A on page 2 of your return before you can total your dependent exemptions.

**NOTE:** *The Arizona meaning of the term "dependent" is, for the most part, the same as the federal meaning. A person that is a dependent on your federal return is also a dependent on your Arizona return.*

**Important:** *Arizona law is not always the same as federal law. In some cases, a person may be a dependent on your Arizona return, but not on your federal return.*

1. A person's gross income will not affect whether or not you can claim that person as a dependent. A person who has income in excess of the federal personal exemption may still be a dependent.
2. A person's filing status will not affect whether or not you can claim that person as a dependent. A person who files a joint return with his or her spouse may still be a dependent.

If you meet the support requirement, you may claim any of the following as a dependent.

- Your child, stepchild, adopted child;
- A child who lived in your home as a family member if placed with you by

an authorized placement agency for legal adoption;

- A foster child (any child who lived in your home as a family member for the whole year);
- Your grandchild, great-grandchild, etc.;
- Your son-in-law, daughter-in-law;
- Your parent, stepparent, parent-in-law;
- Your grandparent, great-grandparent, etc.;
- Your brother, sister, half brother, half sister, stepbrother, stepsister, brother-in-law, sister-in-law;
- If related by blood, your aunt, uncle, nephew, niece;
- A person who lived in your home as a family member for the entire year if your relationship with that person was not in violation of the law.

**NOTE:** *You can take an exemption for each of your dependents who was alive during some part of 1997. This includes a baby born in 1997 or a person who died in 1997. Also, the department does not treat any relationships established by marriage as ended by divorce or death. For example, a widower may continue to claim his deceased wife's father (his father-in-law) as a dependent if he meets all of the other requirements.*

### You cannot take the following as dependents.

- Yourself or your spouse;
- A citizen of any country other than Canada and Mexico who does not live in the U.S., unless that citizen is your adopted child who lived with you all year in a foreign country.

## Support Requirement

To claim a person as a dependent, you must have provided over half that person's total support in 1997. If you file a joint return, support can come from either you or your spouse. If you remarried, the department treats the support provided by your new spouse as support coming from you. In some cases, the department may treat taxpayers that provided less than half of a person's support as having provided more than half. See "Children of Divorced or Separated Parents." Also see "Person Supported by Two or More Taxpayers."

Support includes food, a place to live, clothing, medical and dental care, and education. Support also includes items such as a car and furniture, but only if they are for the person's own use or benefit. Figure the cost of a place to live at its fair rental value. Use the actual cost for any other item.

When figuring support, include money the person used for his or her own support, even if this money was not taxable. Examples of such items you must include are gifts, savings, social security, and welfare benefits. You must also include any other public assistance payments. The department does not treat this support as coming from you.

**Do not** include any of the following in total support.

- Income tax, social security and Medicare tax
- Life insurance premiums
- Scholarship grants
- Funeral expenses

For special rules that apply to a foster child, see IRS publication 501.

## Children of Divorced or Separated Parents

Divorced or separated parents must use special rules to decide if they meet the support requirement for their children. Parents who lived apart from each other during the last 6 months of the year must also use these rules, even if they do not have a separation agreement.

For these rules, a custodial parent is the parent who had custody of the child for most of the year. A noncustodial parent is the parent who had custody for the shorter period of time or who did not have custody at all. See IRS publication 501 for the definition of custody.

For the most part, the department treats the custodial parent as providing over half of the child's total support. This means that, for the most part, the custodial parent can claim the child as a dependent.

In some cases the department treats the noncustodial parent as providing over half of the child's support. In these cases, the noncustodial parent can claim the child as a dependent. The noncustodial parent can claim the dependent when both parents together paid over half of the child's support and one of the following applies.

1. The custodial parent agrees not to claim the child as a dependent for federal purposes for 1997 by signing federal Form 8332 or a similar statement.
2. Your divorce decree or written separation agreement went into effect after 1984 and it states that you (the noncustodial parent) can claim the child as a dependent without regard to any condition.
3. Your divorce decree or written separation agreement went into effect before 1985 and it states that you (the noncustodial parent) can claim the child as a dependent. In this case, you must have given at least \$600 for the child's support in 1997.

## Person Supported by Two or More Taxpayers

You must use special rules to decide if you meet the support requirement if two or more taxpayers support a person. Even if you did not pay over half of a person's support, you may still claim that person as a dependent if all of the following applies.

1. You and one or more other taxpayer(s) together paid over half of the person's support.
2. You paid over 10 percent of that person's support.
3. No one alone paid over half of that person's support.
4. You can claim this person as a dependent on your federal return because each eligible taxpayer who paid over 10 percent of the person's support completed federal Form 2120.

An eligible taxpayer is someone who could have claimed the person as a dependent except that he or she did not pay over half that person's support.

## Special Arizona Rules for Dependents Age 65 or Over

You may also be able to claim a person who is age 65 or over as a dependent. This person may qualify as your dependent even if not related. A person who is age 65 or over will qualify as a dependent on your Arizona return if any of the following apply.

1. In 1997, you paid more than one-fourth of the cost of keeping this person in an Arizona nursing or licensed supervisory care home. Your cost must be more than \$800.
2. In 1997, you paid more than \$800 for either Arizona home health care or other medical costs for the person.

**Completing Line(s) A1**

Enter the following on line(s) A1.

1. The dependent's name.
2. The dependent's relationship to you.
3. The dependent's social security number.
4. The number of months the dependent lived in your home during 1997.

You may lose the exemption if you do not furnish this information.

**Line A2 - Total Dependents**

Enter the total number of persons listed on line(s) A1. Enter the same number onto the front of the return in box 10.

**Line A3 - Persons You Cannot Take as Dependents on Your Federal Return**

Enter the names of the dependents listed on line(s) A1 that you cannot take as a dependent on your federal return if any of the following apply.

1. Your dependent's gross income for 1997 was more than the 1997 federal personal exemption amount.
2. Your dependent filed a joint federal return with his or her spouse.
3. You are claiming the person as a dependent under the special Arizona rules for dependents age 65 or over.

**Reporting Your Residency Status**

Check the appropriate box (11 through 13). Check only one box.

**Line 11 Box - Nonresident**

Check box 11 if you were not an Arizona resident during 1997 and were not on active military duty in Arizona.

**Line 12 Box - Nonresident Active Military**

Check box 12 if you were a nonresident on active military assignment in Arizona in 1997.

**Line 13 Box - Composite Return**

Check box 13 if this is a composite return being filed by one of the following.

1. A partnership filing on behalf of its nonresident partners.
2. An S corporation filing on behalf of its nonresident shareholders.

For information on filing an Arizona nonresident composite income tax return, see Arizona Department of Revenue Income Tax Ruling ITR 97-1. To get a copy of this ruling, call one of the help numbers listed on page 1 of these instructions.

**Determining Arizona Income**

Now complete Parts B, C, and D on page 2 of the return.

Use Part B to determine what portion of your total income is taxable by Arizona.

**NOTE:** *If you are unable to determine the proper line to use, please contact one of the help numbers listed on page 1 of these instructions.*

**FEDERAL Column**

Enter the actual amounts shown on your 1997 federal income tax return in the FEDERAL column. Complete lines B4 through B14. Line B14 should equal the federal adjusted gross income shown on your 1997 federal return Form 1040, Form 1040A, or Form 1040EZ.

**ARIZONA Column**

Enter that portion of your federal income received from Arizona sources in the ARIZONA column. Such income includes wages earned in Arizona, Arizona rental and business income,

and gains on the sale of Arizona property.

The Tax Reform Act of 1986 limits the amount of losses that you may deduct from passive activities. A passive activity is one that involves the conduct of any trade or business in which the taxpayer does not materially participate.

As a nonresident, your Arizona gross income may include some of these losses. You may consider only those passive losses that arose from Arizona sources. Your 1997 Arizona gross income can include only Arizona source losses you used on your 1997 federal return.

The following line-by-line instructions apply to the ARIZONA column.

**Line B4 - Wages, Salaries, Tips, etc.**

Enter all amounts received from Arizona employers or while you were in Arizona.

**NOTE:** *Do not include active military pay.*

**Line B5 - Interest**

If you have an Arizona business, enter only interest (including U.S. Government interest) you earned on accounts pledged as collateral. Do not include any other interest income even if it was earned in Arizona banks.

If any interest is from a partnership or S corporation, enter your distributive share of the interest income derived from Arizona sources.

**Line B6 - Dividends**

If you have an Arizona business, enter only those dividends earned on stocks pledged as collateral, including dividends from small business corporations. Do **not** include any other dividend income.

If dividends are from a partnership or S corporation, enter your distributive share of the dividend income derived from Arizona sources.

## Line B7 - Arizona Income Tax Refunds

Enter the amount of Arizona income tax refunds received in 1997 that you included in your federal adjusted gross income.

## Line B8 - Business Income or (Loss)

Enter income or (loss) from Arizona businesses.

## Line B9 - Gains or (Losses)

Enter gains or (losses) on sales of Arizona property.

## Line B10 - Rents, etc.

Enter rent or royalty income earned on Arizona properties. Also enter income or (loss) from Schedule(s) K-1 (NR) from Arizona partnerships (Form 165), fiduciaries (Form 141), or small business corporations (Form 120S).

## Line B11 - Other Income Reported on Your Federal Return

Enter other income from sources within Arizona. Do not include pension income or social security taxed by the federal government.

## Net Operating Losses

Arizona does not have specific net operating loss provisions for individual taxpayers. Arizona conforms to the federal net operating loss provisions, including the carryback provisions.

As an Arizona nonresident, you may have had a loss from prior year Arizona business operations. However, the loss cannot offset this year's income unless the loss is a net operating loss for federal purposes. You can include the loss deduction in your Arizona gross income only to the extent included in your federal adjusted gross income. You cannot include any amount of that net operating loss which has already been deducted for Arizona purposes.

Enter the amount of net operating loss deduction included in your federal

adjusted gross income that was derived from Arizona sources. Do not include any amount of the loss that has already been deducted for Arizona purposes. Also, do not include any loss for which you are taking a separate subtraction on an amended return filed for a prior tax year under the special net operating loss transition rule.

For information on deducting a net operating loss carryback, see Arizona Department of Revenue Income Tax Procedure ITP 97-2. To get a copy of this procedure, call one of the help numbers listed on page 1 of these instructions.

## Line B12 - Total Income

Add lines B4 through B11 and enter the total.

## Line B13 - Other Federal Adjustments

Include on line B13 any other federal adjustments included in your federal adjusted gross income that are attributable to the Arizona source income reported on your 1997 Arizona nonresident return.

## Line B15 - Arizona Income

Complete line B15 as instructed on the form.

## Line B16 - Arizona Percentage

Divide line B15 by line B14 and enter the result. **(Do not enter more than 100 percent.)** This is the Arizona percentage of your total income.

### Example:

Arizona Gross Income from line B15	=	\$ 7,500
Federal Adjusted Gross Income from line B14	=	\$ 30,000
Arizona percentage	=	\$ 7,500/30,000
	=	25%

## Determining Additions to Income

### Line C17 - Early Withdrawal of Arizona, County, City, or School Retirement System Contributions

If you meet all the following, you must enter an amount here.

1. You left your job with the State of Arizona or an Arizona county, city, or school district for reasons other than retirement.
2. When you left, you took out the contributions you had made to the retirement system while employed.
3. You deducted these contributions on your Arizona income tax returns that you filed in prior years.
4. You did not include these contributions in your federal adjusted gross income this year.

If you meet all these tests, you must report as income those contributions previously deducted on your prior year Arizona tax returns.

For more information, see Arizona Department of Revenue Income Tax Ruling ITR 93-7. To get a copy of this ruling, call one of the help numbers listed on page 1 of these instructions.

### Line C18 - Other Additions to Income

Use line C18 if any of the special circumstances below applies. Attach your own schedule to the back of your return, explaining any amounts entered on line C18.

#### A. Trust and Estate Deductions

You must add the following estate or trust deductions to your Arizona gross income.

1. Your share of the estate's or trust's deductions allowed under the Internal Revenue Code.
2. Your share of the excess deductions and loss carryovers allowed under the



Internal Revenue Code as deductions to the beneficiary on termination of an estate or trust.

You must add the above deductions and loss carryovers to Arizona gross income only to the extent you included these items in computing your Arizona taxable income.

## **B. Agricultural Water Conservation Expenses**

If you take this credit, you cannot deduct any expenses for which you claim the credit. If you take this credit, enter the amount of such expenses that you deducted on your federal return.

## **C. Items Previously Deducted for Arizona Purposes**

Arizona statutes prohibit a taxpayer from deducting items more than once. However, under the operation of former Arizona law (1989 and prior), you could deduct certain items in greater amounts for Arizona purposes than federal purposes. Investment interest and passive activity losses were such items. In some cases, you could have deducted such amounts in their entirety on the Arizona return. For federal purposes, the deduction for these items was limited, with the unused portions being carried forward and deducted in future years. Your Arizona return may include these previously deducted items because of the difference between the federal and former Arizona treatment. If your Arizona taxable income includes items previously deducted for Arizona purposes, you must add such amounts to your Arizona gross income.

## **D. Claim of Right Adjustment for Amounts Repaid in 1997**

You must make an entry here if all of the following apply.

1. During 1997, you were required to repay amounts held under a claim of right.
2. The amount required to be repaid was subject to Arizona income tax in the year included in income.

3. The amount required to be repaid during 1997 was more than \$3,000.

4. You took a deduction for the amount repaid on your 1997 federal income tax return.

5. The deduction taken on your federal income tax return is reflected in your Arizona taxable income.

If the above apply, enter the amount deducted on your federal income tax return which is reflected in your Arizona taxable income.

For more information on the Arizona claim of right provisions, see Arizona Department of Revenue Individual Income Tax Procedure ITP 95-1. To get a copy of this procedure, call one of the help numbers on page 1 of these instructions.

## **E. Claim of Right Adjustment for Amounts Repaid in Prior Taxable Years**

You must make an entry here if all of the following apply.

1. During a year prior to 1997 you were required to repay income held under a claim of right.
2. You computed your tax for that prior year under Arizona's claim of right provisions.
3. A net operating loss or capital loss was established due to the repayment made in the prior year.
4. You are entitled to take that net operating loss or capital loss carryover into account when computing your 1997 Arizona taxable income.
5. The amount of the loss carryover included in your Arizona gross income is more than the amount allowed to be taken into account for Arizona purposes.

Enter the amount by which the loss carryover included in your Arizona gross income is more than the amount

allowed for the taxable year under Arizona law.

## **F. Addition to S Corporation Income Due to Credits Claimed**

Shareholders of an S corporation who claim a credit passed through from an S corporation must make an addition to income for the amount of expenses disallowed by reason of claiming the credit.

An S corporation that passes the following credits through to its shareholders must notify each shareholder of his or her pro rata share of the adjustment. You must enter an amount on this line when claiming any of the following credits.

- Agricultural water conservation credit
- Defense contracting credit
- Environmental technology facility credit
- Pollution control credit
- Recycling credit

## **G. Other Adjustments**

Other special adjustments may be necessary for depreciation or amortization of pollution control devices, child care facilities, or other items. Call one of the help numbers listed on page 1 of these instructions for more information on these adjustments.

## **Line C19 - Total Additions**

Add lines C17 and C18. Enter the total on line C19 and on the front of your return, line 16.

## **Determining Subtractions From Income**

You may only subtract those items for which statutory authority exists. Without such authority you cannot take a subtraction. If you have any questions concerning subtractions from income

call one of the help numbers listed on page 1 of these instructions.

**NOTE:** *You may not subtract any amount which is allocable to income excluded from your Arizona income.*

### Line D20 - Exemption: Age 65 or Over

Multiply the number in box 8 on the front of your return by \$2,100 and enter the result.

### Line D21 - Exemption: Blind

Multiply the number in box 9 on the front of your return by \$1,500 and enter the result.

### Line D22 - Exemption: Dependents

Multiply the number in box 10 on the front of your return by \$2,300 and enter the result.

### Line D23 - Total

Add lines D20 through D22 and enter the total.

### Line D24 - Prorated Exemptions

Multiply the amount on line D23 by your Arizona percentage from line B16 and enter the result.

**NOTE:** *Active Duty Military Personnel Only: If you were on active duty in Arizona during 1997, but you were a resident of another state, you must prorate these exemptions.*

### Line D25 - Interest on U.S. Obligations

Enter the amount of interest income from U.S. Government obligations included as income on line B5 in the ARIZONA column. U.S. Government obligations include obligations such as savings bonds and treasury bills. You must reduce this subtraction by any interest or other related expenses incurred to purchase or carry the obligation. Reduce the subtraction only by the amount of such expenses included in your Arizona gross income.

### Line D26 - Arizona Lottery Winnings

You may subtract all winnings received in 1997 related to an Arizona lottery prize won before March 22, 1983. You may subtract up to \$5,000 of winnings received in 1997 for Arizona lottery prizes won after March 21, 1983. Only subtract those Arizona lottery winnings that you included on line B11 in the ARIZONA column and reported on your federal income tax return.

If you subtract Arizona lottery winnings here, you may have to adjust the amount of gambling losses claimed as an itemized deduction.

### Line D27 - Alternative Fuel Vehicles and Refueling Equipment

Arizona law allows a subtraction for alternative fuel vehicles.

You may qualify to take this subtraction if you did any of the following.

1. Purchased a new alternative fuel vehicle for use in Arizona.
2. Converted a conventional fuel vehicle to an alternative fuel vehicle for use in Arizona.
3. Installed alternative fuel vehicle refueling equipment on your property in Arizona.

You may take a subtraction for purchasing a new alternative fuel vehicle. You may take a subtraction for converting a conventional fuel vehicle to an alternative fuel vehicle. You may take a subtraction for installing an alternative fuel delivery system. You may also subtract some personal interest if your purchase or conversion was for your private non-commercial use. The total subtraction is the sum of the amounts allowed to be subtracted for each item.

To figure your subtraction complete Form 313. Enter the amount from Form 313, Part 1, line 28.

### Line D28 - Agricultural Crops Given to Arizona Charitable Organizations

Arizona law allows a subtraction for qualified crop gifts made during 1997 to one or more charitable organizations. To take this subtraction, you must be engaged in the business of farming or processing agricultural crops. The crop must be grown in Arizona. You must make your gift to a charitable organization located in Arizona that is exempt from Arizona tax.

The subtraction is the greater of 80 percent of the wholesale market price or 80 percent of the most recent sale price for the contributed crop.

To determine if your crop gift qualifies for this subtraction, see Arizona Department of Revenue Income Tax Procedure ITP 93-2. To get a copy of this procedure, call one of the help numbers listed on page 1 of these instructions.

### Line D29 - Other Subtractions

Use line D29 if any of the following special circumstances apply. Attach your own schedule to the back of the return, explaining any amounts entered here.

#### A. Certain Wages of American Indians

Enrolled members of American Indian tribes may subtract wages earned while living and working on their tribe's reservation. You can subtract only those amounts that you included on line B4, ARIZONA column. The federal government must recognize these tribes.

For more information, see Arizona Department of Revenue Income Tax Ruling, ITR 96-4. To get a copy of this ruling, call one of the help numbers listed on page 1 of these instructions.

#### B. Adoption Expenses

You may take this subtraction only in the year the final adoption order is granted.

Enter the lesser of the total of the following adoption expenses or \$3,000.

When figuring your subtraction, you may include expenses incurred in prior years.

The following expenses are qualified adoption expenses.

1. Nonreimbursed medical and hospital costs.
2. Adoption counseling.
3. Legal and agency fees.
4. Other nonrecurring costs of adoption.

If filing separately, you may take the entire subtraction, or you may divide the subtraction with your spouse. However, the total subtraction taken by both you and your spouse cannot exceed \$3,000.

### **C. Qualified Wood Stove, Wood Fireplace, or Gas Fired Fireplace**

Arizona law provides a subtraction for the purchase of a qualified wood stove, qualified wood fireplace, or gas fired fireplace and non-optional equipment directly related to its operation. You may subtract up to \$500 for the purchase and installation of a qualified wood stove, qualified wood fireplace, or gas fired fireplace on your property located in Arizona. When you figure your subtraction, you may also include the purchase price and installation cost of any non-optional equipment directly related to its operation. When figuring your subtraction, do not include taxes, interest, or other finance charges in the purchase price and installation costs.

Arizona law also provides a subtraction for converting an existing fireplace to a qualified wood stove, qualified wood fireplace, or gas fired fireplace and non-optional equipment directly related to its operation. You may subtract up to \$500 of the costs incurred for converting an existing fireplace to a qualified wood stove, qualified wood fireplace, or gas fired fireplace on your property located in Arizona. When you

figure your subtraction, do not include taxes, interest, or other finance charges.

A qualified wood stove or a qualified wood fireplace is a residential wood heater that was manufactured on or after July 1, 1990, or sold at retail on or after July 1, 1992. The residential wood heater must also meet the U.S. Environmental Protection Agency's July 1990 particulate emissions standards.

A qualified gas fired fireplace is any device that burns natural or liquefied petroleum gas as its fuel through a burner system that is permanently installed in the fireplace. The conversion of an existing wood burning fireplace to noncombustible gas logs that are permanently installed in the fireplace also qualifies as a gas fired fireplace.

### **D. Claim of Right Adjustment for Amounts Repaid in Prior Taxable Years**

You must make an entry here if all of the following apply.

1. During a year prior to 1997 you were required to repay income held under a claim of right.
2. The amount required to be repaid was subject to Arizona income tax in the year included in income.
3. You computed your tax for that prior year under Arizona's claim of right provisions.
4. A net operating loss or capital loss was established due to the repayment made in the prior year.
5. You are entitled to take that net operating loss or capital loss carryover into account when computing your 1997 Arizona taxable income.
6. The amount of the loss carryover allowed to be taken into account for Arizona purposes is more than the amount included in your Arizona gross income.

Enter the amount by which the loss carryover allowed for the taxable year under Arizona law is more than the amount included in your Arizona gross income.

### **E. Deposits Made Into Your MSA**

If you have an MSA, you may be able to subtract deposits made into that MSA. Make an entry here if all of the following apply.

1. You have an MSA that qualifies as an MSA under Arizona law, but not federal law.
2. If you are an employee, your high deductible health coverage is provided by your Arizona employer. If you are self employed, your high deductible health coverage is provided by your Arizona business.
3. Either you or your employer made deposits into that MSA during the tax year.
4. You had to include the deposits in income on your federal income tax return.

You can subtract these deposits only to the extent included in your Arizona gross income. Enter these contributions here.

### **F. Employer Contributions Made to Employee MSAs**

If you are an employer, you may subtract the amount contributed to your employees' MSAs that are established under Arizona law. You can subtract these contributions only to the extent not deductible for federal income tax purposes. You can subtract these contributions only to the extent included in your Arizona gross income. Enter these contributions here.

### **G. Certain Expenses Not Allowed for Federal Purposes**

Beginning with the 1997 tax year, you may subtract some expenses that you cannot deduct on your federal return

when you claim certain federal tax credits. These federal tax credits are:

- the federal work opportunity credit;
- the empowerment zone employment credit;
- the credit for employer-paid social security taxes on employee cash tips;
- the Indian employment credit

If you received any of the above federal tax credits for 1997, enter the portion of wages or salaries attributable to Arizona source income that you paid or incurred during the taxable year that is equal to the amount of those federal tax credits you received.

### Line D30 - Total Subtractions

Add lines D24 through D29. Enter the total here and onto the front of your return on line 19.

### Different Last Names

If you filed an Arizona tax return within the past four years with a different last name, enter your prior last name(s), in Part E.

### Totaling Your Income

#### Line 14 - Federal Adjusted Gross Income

You must complete your federal return before completing your Arizona return. You must complete a 1997 federal return to determine your federal adjusted gross income even if not filing a federal return.

Arizona uses federal adjusted gross income as a starting point to determine Arizona taxable income. Enter your federal adjusted gross income from page 2, line B14.

#### Line 15 - Arizona Income

Enter your Arizona income from page 2, line B15, of your return.

#### Line 16 - Additions to Income

Enter the amount from page 2, line C19, of your return.

#### Line 17 - Medical Savings Account (MSA) Distributions

**NOTE:** *New MSA provisions apply for 1997. Special rules apply to accounts established under the former Arizona provisions. If you established an account under the former provisions, you may have either maintained the account or terminated the account. If you maintained the account, the account is subject to the new MSA provisions. If you terminated the account, you must have withdrawn the funds in your account by the last business day in 1997. In this case, the withdrawal penalty does not apply, but you must add the amount withdrawn to your Arizona gross income.*

For information on Arizona's new MSA provisions, see the department's MSA brochure, Pub 542. To get a copy of this brochure, call one of the help numbers listed on page 1 of these instructions.

You must add amounts received from an MSA here if any of the following apply.

#### 1 -You Terminated an MSA established Under Former Arizona Law

You must make an entry here if both of the following apply.

1. You had an account under former Arizona law.
2. You made an election to terminate that account and withdrew the funds by the last business day of 1997.

Enter the amount withdrawn.

#### 2 -You Withdrew Funds From Your MSA For Other Than Qualified Expenses

You must make an entry here if all of the following apply.

1. You have an MSA the qualifies as an MSA under Arizona law.
2. If you are an employee, your high deductible health coverage is provided by your Arizona employer. If you are self employed, your high deductible health coverage is provided by your Arizona business.
3. You withdrew money from your MSA during 1997.
4. You did not use the amount withdrawn to pay qualified medical expenses.
5. You did not have to include the withdrawal as income on your federal income tax return.

Enter the amount withdrawn.

#### 3 -Deceased Account Holder Where The Named Beneficiary is Not the Decedent's Surviving Spouse

You must make an entry here if all of the following apply:

1. The account holder died during the year.
2. The account holder's MSA qualified as an MSA under Arizona law.
3. If the account holder was an employee, the account holder's high deductible health coverage was provided by his or her Arizona employer. If the account holder was self employed, the account holder's high deductible health coverage was provided by his or her Arizona business.
4. You are the named beneficiary of the decedent's MSA.
5. You are not the decedent's surviving spouse.
6. You did not have to include the value of the MSA as income on your federal income tax return.

In this case, the MSA ceased to be an MSA. Enter the fair market value of the MSA as of the date of death, less the amount of MSA funds used within one year of the date of death, to pay the decedent's qualified medical expenses. If the MSA has not paid all of the decedent's medical expenses by the time you file this return, reduce the fair market value by only those expenses the MSA paid. If the MSA pays additional expenses for the decedent after you file, you may file an amended return to further reduce the fair market value of the MSA.

#### 4 -Decedent's Final Return And No Named MSA Beneficiary

Make an entry here if all of the following apply.

1. The account holder died during the year.
2. The account holder's MSA qualified as an MSA under Arizona law.
3. If the account holder was an employee, the account holder's high deductible health coverage was provided by his or her Arizona employer. If the account holder was self employed, the account holder's high deductible health coverage was provided by his or her Arizona business.
4. There is no named MSA beneficiary.
5. This is the decedent's final return.
6. The value of the MSA did not have to be included on the decedent's final federal income tax return.

In this case, the MSA ceases to be an MSA. Enter the fair market value of the MSA as of the date of death. This rule applies in all cases in which there is no named beneficiary, even if the surviving spouse ultimately obtains the right to the MSA assets.

**NOTE:** *The following are not withdrawals. Do not enter any of the following:*

- Amounts from the MSA used to pay qualified medical expenses
- A qualified return of excess contributions
- A qualified rollover
- The fair market value of an MSA received by a surviving spouse who was the deceased account holder's named beneficiary

*For more information about the above items, see the department's MSA brochure, Pub 542.*

#### Line 19 - Subtractions From Income

Enter the amount from page 2, line D30, of your return.

#### Line 20 - Elective Subtraction of Federal Retirement Contributions

*This line applies only to individuals who were civilian employees of the United States Government during 1997. The Arizona Board of Tax Appeals has ruled that no refunds of Arizona income taxes paid on contributions to federal retirement plans are due for any years after 1990. The taxpayers have appealed that determination to the Arizona Tax Court, so the issue is not yet final.*

Line 20 is provided to alert you to a remedy available to you under Arizona law. On your 1997 return, you have two options if you had contributions made for income earned in Arizona.

#### Option #1

You may subtract the amount of contributions to your retirement plan that was withheld from your wages paid by the federal government. Enter on line 20 the amount of such contributions **included in your 1997 Arizona income.** If you choose this option and the courts ultimately decide that it is legal for the State of Arizona to tax

your retirement contributions, you will owe additional tax and accrued interest. (Also, see *Protective Claim for Refund* below.)

#### Option #2

You may choose to ignore line 20. You may instead file the protective claim form. This form is in the front of this instruction booklet. Under this option you will pay tax on your contributions to the federal retirement plan. You will also protect your rights to a credit or refund of this tax if the courts ultimately decide that is appropriate. The state will pay interest in this event.

#### Protective Claim for Refund

You can find this form in the front of this instruction booklet. You can find this form at the bottom of the page titled *Notice to Current and Former Federal Civilian Employees*. If you were a civilian employee of the United States government at any time during the years 1993 through 1997, you should complete this claim form. Submitting this claim form will protect your rights to tax relief for the years you were so employed. If you choose **Option #2** for 1997, you should also include 1997 in your claim. Claims for 1993 must be postmarked by April 15, 1998, to be valid. If you previously filed a protective claim for 1993 through 1996, only include 1997 on the claim form filed for 1997.

Please do not include the protective claim with your 1997 income tax return. Mail the claim form separately to the address indicated to ensure proper handling.

#### Figuring Your Arizona Tax

#### Line 23 - Itemized or Standard Deductions

You must decide whether to take the standard deduction or to itemize your deductions. Your Arizona income tax will be less if you take the larger of your standard deduction or your itemized deduction.

## Your Standard Deduction

**Tax Tip:** *The standard deduction is not prorated.*

If you take the standard deduction, check box 23S.

If your filing status is:	Your standard deduction is:
Single	\$3,600
Married filing separate	\$3,600
Married filing joint	\$7,200
Head of household	\$7,200

## Your Itemized Deduction

You may itemize deductions on your Arizona return even if you do not itemize deductions on your federal return. The itemized deductions allowed for Arizona purposes are those itemized deductions that are allowable under the Internal Revenue Code. As an Arizona nonresident, you must prorate these deductions by the percentage which your Arizona gross income is of your federal adjusted gross income.

To determine your Arizona itemized deductions, complete a federal Form 1040, Schedule A. Then complete the Arizona Form 140NR, Schedule A. If you telefile your federal Form 1040, you do not need to complete a federal Form 1040, Schedule A. Instead, use your telefile worksheet for 1040 filers. Then complete the Arizona Form 140NR, Schedule A. If you itemize deductions, check box 23I.

**NOTE:** *If you itemize, you must attach a copy of your federal Schedule A and your Arizona Schedule A (NR) to your Arizona return. If you telefile your federal Form 1040, you must attach a copy of your telefile worksheet for 1040 filers.*

## Line 24 - Personal Exemptions

Your personal exemption depends on your filing status. See Personal Exemption Chart. Then complete Personal Exemption Worksheet

### Personal Exemption Chart - Line 24

If you checked filing status	Personal Exemption before proration
Single (Box 7)	\$2,100
Married filing joint return (Box 4) and claiming no dependents (Box 10)	\$4,200
Married filing joint return (Box 4) and claiming at least one dependent (Box 10)	\$6,300
Head of household and you are <b>not</b> married to a person who was a nonresident alien for federal income tax purposes at any time during 1997. (Box 5)	\$4,200
Head of household and you <b>are</b> married to a person who was a nonresident alien for federal income tax purposes at any time during 1997. (Box 5)	\$3,150
	Or Complete Form 202 <i>Personal Exemption Allocation Election</i> .
Married filing separately (Box 6) with neither spouse claiming any dependents (Box 10)	\$2,100
	Or Complete Form 202 <i>Personal Exemption Allocation Election</i> .
Married filing separately (Box 6) with one spouse claiming at least one dependent (Box 10)	\$3,150
	Or Complete Form 202 <i>Personal Exemption Allocation Election</i>

### Personal Exemption Worksheet

1. Amount from chart above. If you are an active duty military member during 1997, skip lines 2 and 3 and enter this amount on Form 140NR, page 1, line 24. All other taxpayers complete lines 2 and 3.	\$
2. Enter your Arizona percentage from Form 140NR, page 2, line B16.	%
3. Multiply line 1 by the percent on line 2. Enter the result here and on Form 140NR, page 1, line 24.	\$

**NOTE:** For Active Duty Military Personnel Only: *If you were on active duty in Arizona during 1997, but were a resident of another state, do not prorate your personal exemption. You are allowed a 100 percent deduction for the personal exemption (to include spouse).*

Married taxpayers claiming no dependents receive only one personal exemption of \$4,200 (prior to prorating). Married taxpayers claiming at least one dependent receive only one personal exemption of \$6,300 (prior to prorating). When married taxpayers file separate Arizona returns, the personal exemption may be taken by either taxpayer or divided between them. If one spouse qualifies to file as head of household because the other spouse was a nonresident alien for federal income tax purposes at any time during 1997, the personal exemption may be taken by either spouse or divided between them.

If you are married filing a separate return with one spouse claiming at least one dependent, or married to a nonresident alien and filing as head of household, you may, prior to prorating, claim a personal exemption of only \$3,150 (one-half of the total \$6,300) unless you and your spouse complete Form 202, *Personal Exemption Allocation Election* electing a different allocation. If you are married filing a separate return with neither spouse claiming a dependent, you may, prior to prorating, claim a personal exemption of only \$2,100 (one-half of the total \$4,200) unless you and your spouse complete Form 202, *Personal Exemption Allocation Election* electing a different allocation. Complete Form 202 if one of the following applies.

1. You are married filing a separate return, with neither spouse claiming a dependent, and prior to prorating, you or your spouse claim a personal exemption of more than \$2,100.
2. You are married filing a separate return, with one spouse claiming at least one dependent, and prior to prorating, you or your spouse claim a

personal exemption of more than \$3,150.

3. You are filing as head of household and you are married to a person who was a nonresident alien for federal income tax purposes at any time during 1997 and, prior to prorating, you or your spouse claim a personal exemption of more than \$3,150.

The spouse who is claiming more than one-half of the total personal exemption must attach the original Form 202 to his or her Arizona income tax return. The spouse who is claiming less than one-half of the total personal exemption must attach a copy of the completed Form 202 to his or her Arizona income tax return.

Call the number listed on page 1 to order Form 202.

#### Line 26 - Taxable Income

Subtract line 25 from line 22 and enter the result. Use this amount to calculate your tax using Tax Rate Table X or Y.

#### Line 27 - Tax Amount

Enter the tax from Tax Rate Table X or Y.

#### Line 28 - Tax From Recapture of Credits From Arizona Form 301

Enter the amount of tax due from recapture of the environmental technology credit and/or the recycling equipment credit from Form 301, Part II, line 17.

#### Line 29 - Subtotal of Tax

Add lines 27 and 28.

#### Line 30 - Credits From Arizona Form 301

Complete line 30 if you can take any of the following credits.

1. **Defense Contracting Credit.** You may qualify for this credit if you are an Arizona Department of Commerce certified defense contractor who has

qualified increases in employment. This tax credit also includes a provision for a property tax credit. Use Form 302 to figure this credit.

2. **Enterprise Zone Credit.** You may qualify for this credit if your business in an Arizona enterprise zone had net increases in qualified employment positions. Use Form 304 to figure this credit.

3. **Environmental Technology Credit.** You may qualify for this credit if your business incurred expenses in constructing a qualified environmental technology manufacturing facility. Use Form 305 to figure this credit.

4. **Military Reuse Zone Credit.** You may qualify for this credit if you have qualifying net increases in full-time employment within a military reuse zone. Use Form 306 to figure this credit.

5. **Recycling Equipment Credit.** You may qualify for this credit if your business has installed recycling material equipment. Use Form 307 to figure this credit.

6. **Credit for Taxes Paid to Another State or Country.** You may qualify for this credit if you paid tax to Arizona and another state or country on the same income. Use Form 309 to figure this credit.

7. **Agricultural Water Conservation System Credit.** You may qualify for this credit if you incurred expenses to purchase and install an agricultural water conservation system in Arizona. Use Form 312 to figure this credit.

8. **Alternative Fuel Credit.** You may qualify for this credit if you purchased or leased a new alternative fuel vehicle or purchased alternative fuel refueling equipment. You may also qualify for this credit if you converted your conventional vehicle to operate as an alternative fuel vehicle. Use Form 313 to figure this credit.

**9. Underground Storage Tanks Credit.** You may qualify for this credit if you incurred expenses correcting a release of a regulated substance from an underground storage tank. To qualify for this credit, you must not have been liable or responsible for the corrective action as an owner or operator of the underground storage tank. Use Form 314 to figure this credit.

**10. Pollution Control Credit.** You may qualify for this credit if you purchased depreciable property used in a trade or business to reduce or prevent pollution. Use Form 315 to figure this credit.

**11. Construction Materials Credit.** You may qualify for this credit if you purchased construction materials for a building used in manufacturing, mining, or research and development. Your construction costs must have been more than five million dollars. Use Form 316 to figure this credit.

Compute your credit on the appropriate form. Then complete Form 301 and enter the amount from Form 301, line 31. The credits on line 30 cannot reduce your tax below zero. These credits are not refundable credits.

Attach Arizona Form 301 along with any supporting documents to your return.

### Line 31 - Credit Type

If you entered an amount on line 30, write the form number(s) of the credit(s) from Arizona Form 301, Part II.

If you are claiming: Write form number:

1. Defense Contracting Credit	302
2. Enterprise Zone Credit	304
3. Environmental Technology Credit	305

4. Military Reuse Zone Credit	306
5. Recycling Equipment Credit	307
6. Credit for Taxes Paid to Another State or Country	309
7. Agricultural Water Conservation System Credit	312
8. Alternative Fuel Credit	313
9. Underground Storage Tanks Credit	314
10. Pollution Control Credit	315
11. Construction Materials Credit	316

### Line 32 - Balance of Total Tax

Subtract line 30 from line 29, but do not enter an amount less than zero. If line 30 is more than line 29, enter zero on line 32.

## Totaling Payments

### Line 33 - Arizona Income Tax Withheld

Enter the Arizona income tax withheld shown on the Form(s) W-2 from your employer. Do not include income taxes withheld by any other state. Attach the Form(s) W-2 to the front of your return.

### Line 34 - Arizona Estimated Tax Payments for 1997 and Amount Applied From 1996 Return

Use this line if you did one of the following:

1. Made estimated income tax payments to Arizona for 1997.
2. Applied any of your refund from your 1996 Arizona return to 1997 estimated taxes for Arizona.

Enter the total amount paid and/or applied to 1997 taxes.

### Line 35 - Amount Paid With 1997 Extension Request (Form 204)

Use this line to report the payment you sent with your extension request.

### Line 36 - Total Payments

Add lines 33 through 35. Enter the total.

Also, do the following if you computed your 1997 tax under Arizona's claim of right provisions.

1. Write "ARS § 43-1029" and the amount of the prior year tax reduction in the space to the left of your total payment amount.
2. Include the credit for the prior year tax reduction in the total entered on line 36.
3. Attach a schedule explaining the amounts repaid and the computation of the prior year tax reduction.

For more information on Arizona's claim of right provisions, see Arizona Department of Revenue Individual Income Tax Procedure ITP 95-1.

## Figuring Your Overpayment or Tax Due

### Line 37 - Tax Due

If line 32 is more than line 36, you have tax due. Subtract line 36 from line 32. Skip lines 38, 39 and 40.

### Line 38 - Overpayment

If line 36 is more than line 32, subtract line 32 from line 36. Complete lines 39 and 40.

### Line 39 - Amount of Line 38 to Apply to 1998 Tax

If you want all or part of your refund applied to next year's Arizona estimated taxes, enter that amount.



**Line 40 - Balance of Overpayment**

Subtract line 39 from line 38 to determine your overpayment balance before voluntary gifts and any estimated payment penalty.

**Making Voluntary Gifts**

You can make voluntary gifts to each of the funds shown below. A gift will reduce your refund or increase the amount due with your return.

*You cannot change original gifts later on amended returns.*

**Line 41 - Arizona Wildlife Fund**

Gifts go to the Arizona Game, Nongame, Fish and Endangered Species Fund. This fund helps protect and conserve over 1,000 nongame species.

**Line 42 - Child Abuse Prevention Fund**

Gifts go to the Arizona Child Abuse Prevention Fund. This fund provides financial aid to community agencies for child abuse prevention programs.

**Line 43 - Neighbors Helping Neighbors Fund**

Gifts go to the Neighbors Helping Neighbors Fund. This fund provides eligible recipients with emergency aid in paying energy utility bills and conserving energy.

**Line 44 - Special Olympics Fund**

Gifts go to the Special Olympics Fund. This fund helps provide programs of the Arizona Special Olympics.

**Line 45 - Political Gifts**

Gifts go to one of the following political parties.

Democratic  
Libertarian  
Reform  
Republican

**Line 46 - Political Party**

Check the box for the political party to which you wish to give. Select only one party. If you do not select a political party, the department will return the amount on line 45.

**Line 47 - Estimated Payment Penalty and Interest**

You must have made Arizona estimated income tax payments during 1997 if you meet either of the following.

1. You reasonably expected your Arizona gross income to exceed \$75,000 in 1997.
2. Your Arizona gross income in 1996 was greater than \$75,000.

In projecting current Arizona gross income, you must use ordinary business care and prudence.

If you were unable to project your 1997 Arizona gross income, you may request a waiver from the requirement to make estimated payments. The department may grant a waiver for one or more payment periods. You must request a waiver in writing. If requesting a waiver, attach your request to your return when you file. Your request must explain why you could not reasonably project your Arizona gross income for one or more payment periods during 1997.

The department may grant a waiver only if all of the following apply.

1. Your Arizona gross income in the preceding taxable year was less than \$75,000.
2. Using ordinary business care and prudence, you were unable to reasonably project your 1997 Arizona gross income.

You must attach Form 221 and your waiver request to your return.

If you report as a farmer or fisherman for federal purposes, you were not

required to make estimated payments during 1997 if the following apply.

1. You are a calendar year filer. You file your Arizona return by March 2, 1998. You pay in full the amount stated on your return as payable.
2. You are a fiscal year filer. You file your Arizona return by the first day of the third month after the end of your fiscal year. You pay in full the amount stated on your return as payable.

**If the above applies, check box 2 on line 48 and do not complete Form 221.**

An individual who fails to make the required estimated payments is subject to penalty and interest on any estimated tax payment that is late or underpaid.

Complete and attach Form 221, *Underpayment of Estimated Tax by Individuals*, to determine if any penalty and interest are due. Enter total penalty and interest from Form 221.

**Line 48 -**

**Box 1 -** Check box 1 if any of the following applies to you.

1. You checked the box on line 1 of Form 221.
2. You completed the annualized income worksheet on Form 221.
3. You elected to be treated as a nonresident alien on your federal income tax return. You made three estimated payment installments. Your first installment equaled 50 percent of the total of all of your required installments.

**Box 2 -** If you are an individual who for federal purposes reports as a farmer or fisherman, check box 2.

**Box 3 -** If you completed and attached Form 221, check box 3.

**Line 49 - MSA Withdrawal Penalty**

You must pay a withdrawal penalty if you made an MSA withdrawal during 1997 and all of the following apply.

1. You have an MSA that qualifies as an MSA under Arizona law.
2. You used the amount withdrawn for purposes other than to pay for qualified medical expenses.
3. You made the withdrawal on a day other than the last business day of the year.
4. The withdrawal is not subject to the federal withdrawal penalty.

The penalty is equal to 10 percent of the withdrawal. The withdrawal penalty is not subject to abatement. You must remit this penalty with your income tax return filed for the year in which you made the withdrawal.

Multiply the amount of your withdrawal subject to penalty by 10 percent. Enter the result.

The following withdrawals are not subject to the penalty.

1. Any withdrawal subject to the federal withdrawal penalty.
2. Withdrawals made from your MSA on the last business day of the tax year.
3. Any withdrawal made by an account holder who is at least age 59 1/2 when he or she makes the withdrawal.

**NOTE:** *The following are not withdrawals. Do not enter a penalty for any of the following:*

- Amounts from the MSA used to pay qualified medical expenses
- A qualified return of excess contributions
- A qualified rollover

- *The fair market value of a MSA received by a surviving spouse who was the deceased account holder's named beneficiary*

*For more information about the above items, see the department's MSA brochure, Pub 542.*

## Figuring Your Refund or Tax Due

**Line 51 - Refund**

Subtract line 50 from line 40. Enter your refund on line 51 and skip line 52.

If you owe money to any state agency and certain federal agencies, your refund may go to pay some of the debt. If so, the department will let you know by letter.

**Tax Tip:** *If you change your address before you get your refund, let the department know. Write to: Refund Desk, Arizona Department of Revenue, 1600 W Monroe, Phoenix AZ 85007. Include your social security number in your letter.*

**Line 52 - Amount Owed**

Add lines 37 and 50. Enter the amount you owe on line 52.

Make your check payable to Arizona Department of Revenue. Write your social security number on the front of your check or money order. Attach your check or money order to the front of your return where shown.

The department cannot accept checks or money orders in foreign currency. You must make payment in U.S. dollars.

## Sign Your Return

You must sign your return. If married filing a joint return, both you and your spouse must sign even if only one had income. The department cannot send a refund check without proper signatures on the return.

## Instructions Before Mailing

- Be sure you enter your home telephone number in the space provided on the front of your return. If your daytime telephone number is not the same as your home number, also enter a daytime number.
- Check to make sure that your math is correct. A math error can cause delays in processing your return.
- Make sure your **name** is on the return. If you received your return in the mail, use the preprinted label. **If the label is not correct, do not use it.**
- If claiming **dependent** exemptions, write the number of dependents claimed on the **front** of the return. On page 2 of the return, also write each dependent's name, relationship, social security number, and the number of months that he or she lived in your home.
- Check the **boxes** to make sure you filled in all required boxes.
- Attach **all** required documents.

1. Attach Form(s) W-2 to the **front** of your return.
2. Write your social security number on the front of your check and attach your *check* to the **front** of the return.

The Department of Revenue may charge you \$25 for a check returned unpaid by your financial institution.

3. Attach Arizona Form 301 and your own schedules to the back of the return.
4. If claiming a credit for taxes paid to another state or country, attach a copy of the other state's or country's filed return.

5. If you requested a filing extension, attach a copy of the federal or state extension request to the front of your return.

6. If you itemize, be sure to attach Arizona Schedule A(NR) and a copy of the federal Schedule A. If you telefile your federal return, attach your telefile worksheet.

- Sign your return and have your spouse sign if filing jointly.

## Filing Your Return

Before you mail your return, make a copy of your return. Also make a copy of any schedules that you are sending in with your return. Keep the copies for your records. Be sure that you file the original and not a copy.

To mail your return, use the envelope that came in your booklet. If it is missing, send the return to: Arizona

Department of Revenue, PO Box 29002, Phoenix AZ 85038-9002.

## Make sure you put enough postage on the envelope.

The U.S. Postal Service must postmark your return or extension request by midnight April 15. A postage meter postmark will not qualify as a timely postmark. *Only a postmark from the U.S. Postal Service will qualify.*

## How Long To Keep Your Return

Keep your records as long as they are important for any Arizona tax law. Keep all records that support your income and deductions for a tax year until the period of limitations expires for the return for that tax year. A period of limitations is the limited time after which no legal action can be brought. Usually, this is four years from the date the return was due or filed.

me cases, the limitation period is longer than four years. The period is six years from when you file a return if you under report the income shown on that return by more than 25 percent. The department can bring an action at any time if a return is false or fraudulent, or you do not file a return.

Keep records that establish the basis of property for a period longer than four years. Also keep net operating loss records back to the date you incurred the loss. To find out more about what records you should keep, get federal Publication 552.

## When To Expect Your Refund

Expect your refund in the mail within 8 weeks of the date you filed. If you have not received your refund by that time, contact one of the help numbers listed on page 1 of these instructions.

# Tax Rate Tables X and Y

# 1997

**Table X**

Use if your filing status is Single or Married filing separate returns.

Over	But not over	
\$0	\$10,000	2.9% of taxable income
\$10,000	\$25,000	\$290, plus 3.3% of the excess over \$10,000
\$25,000	\$50,000	\$785, plus 3.9% of the excess over \$25,000
\$50,000	\$150,000	\$1,760, plus 4.8% of the excess over \$50,000
\$150,000	and over	\$6,560, plus 5.17% of the excess over \$150,000

**Example:**

Single with taxable income on line 26 of \$45,000.  
Compute tax using Tax Table X as follows:

	\$45,000
	<u>-25,000</u>
	\$20,000
	<u>X.039</u>
	\$ 780
	<u>+785</u>
Arizona Tax	\$ 1,565

**Table Y**

Use if your filing status is Married filing joint return or Head of household.

Over	But not over	
\$0	\$20,000	2.9% of taxable income
\$20,000	\$50,000	\$580, plus 3.3% of excess over \$20,000
\$50,000	\$100,000	\$1,570 plus 3.9% of the excess over \$50,000
\$100,000	\$300,000	\$3,520, plus 4.8% of the excess over \$100,000
\$300,000	and over	\$13,120, plus 5.17% of the excess over \$300,000

**Example:**

A married couple's taxable income on line 26 is \$30,000.  
They would compute their tax using Tax Table Y as follows:

	\$30,000
	<u>-20,000</u>
	\$10,000
	<u>X.033</u>
	\$ 330
	<u>+580</u>
Arizona Tax	\$ 910

